



## ARIZONA DEPARTMENT OF FINANCIAL INSTITUTIONS

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Superintendent of Financial Institutions

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### **NEWS RELEASE**

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### **DFI WARNS CONSUMERS NOT TO FALL PREY TO DECEPTIVE MORTGAGE ADVERTISING**

Today the Arizona Department of Financial Institutions reminded Arizonans to avoid falling prey to deceptive mortgage advertising practices.

DFI provided tips for consumers who are refinancing or seeking a mortgage to buy a home in conjunction with Governor Janet Napolitano's proclamation of April 2008 as Financial Literacy Month.

"Unfortunately there are still too many mortgage advertisers making deceptive claims about low rates and payments," said DFI Superintendent Felecia Rotellini. "The first step Arizonans should take before making a mortgage decision is to understand that some mortgage ads contain misleading 'teaser' rates and false representations."

DFI is looking into mortgage advertising and will take action against companies that knowingly advertise any false, misleading, or deceptive statements with regard to the rates, terms, or conditions for a mortgage loan.

The Superintendent added: "Arizona law prohibits deceptions and misrepresentations, including concealing an essential or material fact in the course of the mortgage business."

DFI wants consumers to recognize buzz words in mortgage ads and to understand all the terms and conditions of a proposed loan that trigger follow-up questions. DFI encourages consumers to understand all details of a mortgage before making any commitments.

#### **Be Aware of the Following Buzz Words in Advertisements:**

**"A Low Fixed Rate"** Ads may not tell you how long the rate will be fixed. The rate may be fixed for an introductory period only, which can be as short as 30 days. A fixed rate mortgage loan has an interest rate that remains constant throughout the life of the loan, so that the amount you pay each month remains the same over the entire mortgage term, typically 15, 20, or 30 years.

**"Very Low Rate"** Ads could mean the "payment" rate or the "interest" rate. The interest rate is the rate used to calculate the amount of interest you will owe the lender each month. The payment rate is the rate used to calculate the amount of the payment you are obligated to make each month. Some offers

advertise a low payment rate without telling you that it applies only during an introductory period. If the payment rate is less than the interest rate, you will not cover the interest due—this is called negative amortization. It means that your loan balance is actually increasing and the lender is adding the unpaid interest to the balance you owe.

**“Very Low Payment Amount”** Ads quote a very low payment that could be an interest only loan where you pay only the amount of interest accrued each month. Eventually, you will have to pay off the principal—or you may end up owing a lump sum due at the end of the loan.

**“Loan Amount \$300,000—Pay Only \$900 per month” “Mortgage Rates Near 30-Year Lows” “Rates as Low as 1%”** Ads do not often disclose that a rate or payment is for a very short introductory period. These are “teaser” short-term rates or payments.

**“Important Notice From Your Mortgage Company or Important Payment Information”** Ads or mailers that contain information about your mortgage may not be from your mortgage company at all. Before responding to any offer, review it carefully to make sure you know who you are dealing with.

**To make an informed decision about a mortgage offer, you need to know or ask the lender:**

- **Annual Percentage Rate and Costs:** What is the Annual Percentage Rate (“APR”)? The APR is the total cost of the credit expressed as a yearly interest rate. It includes all costs of the credit such as points and processing fees. Be aware of “no cost” Ads. Ask about all fees and costs.
- **Monthly Payment:** What will the monthly payment be for every month of the loan, and could it increase? When could it increase? What would your new payment be? Could your monthly payment increase more than once?
- **Escrow Account:** Does the monthly payment include an escrow amount to pay for your property taxes and homeowners insurance? Or must you pay these costs on your own? If you have to pay on your own, ask your lender for an estimate so you can budget accordingly.
- **Loan Terms:** What is the term of the loan (15 years? 30 years?)? How many payments will you have to make? Would the loan be paid off at the end or would you still owe a “balloon” payment?
- **Prepayment Penalty:** Will you have to pay prepayment penalties to refinance and pay off the loan early? If so, how much, and when would they apply? If the loan has an introductory or teaser rate, can you refinance, without penalties, before the rate resets and your payment increases?

Remember, ask questions and understand what you are obligating yourself to do.

To file a mortgage deception complaint, visit [www.azdfi.gov](http://www.azdfi.gov) and click on complaint form. Keep the original envelope, advertisement, and all information associated with the ad, along with the date and time it was received.

\*Helpful information included above is from the Federal Trade Commission’s Consumer Alert (September 2007). Visit [www.ftc.gov/credit](http://www.ftc.gov/credit) and click on mortgages & real estate; [www.azdfi.gov](http://www.azdfi.gov) for additional financial literacy information; and [www.federalreserve.gov/consumers.htm](http://www.federalreserve.gov/consumers.htm) for more helpful publications and mortgage calculators.